COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Boston Edison Company, Cambridge	)	D.T.E. 03-88A
Electric Light Company, Commonwealth	)	D.T.E. 03-88B
Electric Company, Costs to be Included in	)	D.T.E. 03-88C
Default Service Rates	)	

INITIAL COMMENTS OF THE CAPE LIGHT COMPACT

The towns of Aquinnah, Barnstable, Bourne, Brewster, Chatham, Chilmark, Dennis, Edgartown, Eastham, Falmouth, Harwich, Mashpee, Oak Bluffs, Orleans, Provincetown, Sandwich, Tisbury, Truro, West Tisbury, Wellfleet, and Yarmouth, and the counties of Barnstable and Dukes, acting together as the Cape Light Compact (the "Compact"), a municipal aggregator under G.L. c. 164, § 134, hereby submit the following initial comments on the proposed Settlement Agreement (the "Settlement Agreement") filed with the Department of Telecommunications and Energy (the "Department") on January 21, 2005. The Settlement Agreement was filed in connection with a Joint Motion for Approval of Settlement (the "Joint Motion") made by Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge Electric"), Commonwealth Electric Company ("Commonwealth Electric," and together with Boston Edison and Cambridge Electric, "NSTAR"), Fitchburg Gas and Electric Light Company d/b/a Unitil, Massachusetts Electric Company and Nantucket Electric Company, Western Massachusetts Electric Company, the Attorney General of the Commonwealth and Associated Industries of Massachusetts (collectively, the "Settling Parties").

BACKGROUND

In its Order Opening Investigation, dated November 17, 2003 (the "Order"), the Department directed each distribution company to make a filing that "(1) identifies its wholesale-related and direct retail-related default service costs, based on the most recent twelve-month period for which such cost data are available; (2) allocates those costs to its default service customer classes on a per kilowatt-hour ("KWH") basis; and (3) calculates adjustment to its distribution rated based on a per-KWH allocation to each rate class of the identified default service costs." Order 4-5. The Department further required each distribution company to, among other things, separate its direct retail costs into those costs associated with, among other things, "unrecovered bad debt." *Id.* at 5.

Pursuant to the Order, NSTAR made its default service cost filing on January 20, 2004 (the "NSTAR Cost Filing"). The filing showed that unrecovered bad debt comprised the overwhelming share – roughly 94% – of the total wholesale-related and direct retail-related default service costs that NSTAR was proposing to allocate to default service rates. Direct Testimony of Henry C. LaMontagne ("Ex. NSTAR-HCL"), Ex. NSTAR-HCL-1. The filing also showed that NSTAR had not calculated the actual bad debt experience of the NTAR companies with respect to default service customers. Instead, NSTAR had allocated a portion of each NSTAR distribution company's total bad debt for 2003 based on the ratio of revenues received by that company for the generation of default service to total retail revenues for that distribution company. NSTAR-HCL 6. During the evidentiary hearing, NSTAR's witness conceded that tracking actual bad debt associated with default service would be "more accurate" than the allocation method employed by NSTAR. Tr. 31.

In the Settlement Agreement, NSTAR continues to propose calculation of default service-related bad debt through its original allocation method. *See* Ex. NSTAR-HCL-2. Because all existing standard offer customers will become default service customers as on March 1, 2005, the revised NSTAR exhibits submitted with the Settlement Agreement now propose to estimate default service-related debt by taking total bad debt and multiplying that amount by the ratio of the combined retail generation revenues from default service and standard offer to total retail service revenues. *See* Ex. NSTAR-HCL-1 (Settlement); NSTAR-HCL-2 (Settlement).

In response to the Order, the Settlement Agreement proposes a per MWH default service adder for each distribution company's default service rates. The adder is the product of the 2003 costs deemed to be default service-related costs (including costs associated with 2003 standard offer service) divided by the number of MWH delivered to both default service customers and standard offer customers in 2003. *See, e.g.,* Ex. NSTAR-HCL-1 (Settlement). The Settlement Agreement proposes to freeze the costs to be included in default services rates until a future "general distribution rate case" or such time that migration of default service customers to competitive supply has reached a "significant level." Settlement Agreement § 2.4.

COMMENTS

The Settlement Agreement unreasonably fails to require NSTAR to accurately calculate its default service-related bad debt costs and should only be approved if modified by the Department to require NSTAR to do so. In addition, the Department should reject the Settlement Agreement to the extent it unreasonably fixes at 2003 levels the default service costs used to calculate default service rates. Because these points have

been articulated in detail by other parties, *see, e.g.,* Comments of Constellation NewEnergy, Inc. and Dominion Retail, Inc., the Compact does so only in summary fashion below.

I. THE PROPOSED SETTLEMENT AGREEMENT FAILS TO REQUIRE ACCURATE CALCULATION OF DEFAULT-SERVICE RELATED BAD DEBT BY NSTAR

It is undisputed that NSTAR's method of calculating default service-related bad debt may be inaccurate and it is clear that NSTAR's method of calculation is radically different from that used by the other distribution companies based on their actual bad debt data. The Department should not approve a settlement agreement that fails to require NSTAR to track and calculate actual bad debt unrecovered from default service customers.

The Department should affirmatively require NSTAR to track the actual bad debt experience of its default service customers and should require that the incremental cost of doing so be included in default service rates. During the evidentiary hearing, the Department requested a description of the steps necessary for NSTAR to alter its billing system to calculate actual default service-related bad debt and the costs associated with those steps. Tr. 34-35 (Record Request DTE-4). In its response, filed after the close of the evidentiary hearing and therefore not subject to examination, NSTAR estimated that the costs of planning such a system change and putting it in place would be "in excess of $100,000." Response to Record Request DTE-4. This is likely to be a very conservative estimate of up-front costs, and there are presumably no or negligible post-implementation costs. As a result, spread over the base of default service customers, the costs of such a

billing system change would appear to be miniscule and well warranted as a means of faithfully implementing the Department's orders in D.T.E. 02-40-B and D.T.E. 03-88.

II. THE PROPOSED SETTLEMENT UNREASONABLY FIXES DEFAULT SERVICE COSTS USING 2003 DATA

The Department should not accept the Settlement Agreement to the extent that it fails to require the distribution companies to update, on at least an annual basis, their default service cost filings.

Each company's default service adder is calculated by dividing that company's default service costs (the numerator) by the number of MWH delivered to default service (and standard offer) customers (the denominator). The Settlement Agreement appears to allow the denominator to be adjusted on an annual basis while the numerator remains fixed using 2003 data. *See* Settlement Agreement ¶¶ 2.4, 2.6. It is likely that the denominator will increase annually (assuming expected load growth and the absence of significant migration to competitive supply) while the numerator remains artificially fixed despite the fact that costs, particular bad debt costs, would be expected to rise with load growth. In such circumstances, the default service adder will decrease. Certainly, an artificially depressed default service adder would fly in the face of the Department's orders in D.T.E. 02-40-B and D.T.E. 03-88 and create an unreasonable and entirely unnecessary threat to municipal aggregation and the development of a competitive retail market. Incredibly, the Settlement Agreement contemplates updating default service costs *following* significant customer migration to competitive supply despite the fact that it may well be the *lack of customer migration* that should trigger an updating of default service costs.

Finally, assuming that the Department will require NSTAR to track the actual bad debt of its default service customers (as argued in Section I above), that data can best be used as part of an annual process of updating default service costs filings.

Respectfully submitted,

THE CAPE LIGHT COMPACT

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